Newsletter - Vol. 5 Issue 6

June 2008

mortgagestraightTalk.com

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30 Yr. Fixed Conform. & Jumbo	6.00 & 6.125%
5/1 ARM Conform. & Jumbo	5.125 & 6.00%
Prime Rate	5.00%
MTA Index	3.5283%
COFI Index	3.28%
Home Ownership Accelerator Index	2.828%

Morty's Bench Marks - 5/30/2008

Above rates assume 30 day locks priced at par, that is, at wholesale with no rebate. Rates change daily.

CURRENT EVENTS

5/1-5 One day after the Fed cut interest rates stocks surged 189 points as investors welcomed better than expected economic reports, falling commodity & oil prices and a rise in the dollar. On Friday, the economy saw a loss of only 20,000 jobs for the month of March, far less than the 75,000 that was expected. Oil topped $120/barrel on Monday. While several Wall St. pundits claim the worst is behind us, I am more apt to agree with Warren Buffet and the University of San Diego who both foresee a protracted recession and a slow recovery. The housing market is certainly not positioned to come back as readily as the economy in general.

5/6 Fannie Mae reported it lost $2.2 billion in the first quarter due to increasing mortgage defaults and ongoing problems in the credit markets. The government sponsored mortgage maker warned that the tumbling home values and loan defaults that have crippled the U.S. economy are likely to worsen. The firm said it now forecasts that home prices will sink 7% to 9% this year, 2 percentage points worse than its previous decline range forecast, a drop that could leave prices 19% off of peak levels.

5/7 The Dow dropped 206 points. The drop also coincided with a speech by the chairman of the Securities and Exchange Commission, Christopher Cox, who called for more stringent federal oversight of investment banks. Meanwhile, the exchange rate for the Dollar rose from 1.59D to 1.53D, a two-month high against the Euro.

5/8 Whom to believe? **Money** magazine reports that **Fiserv,** a financial services information technology company, forecasts a -13.8% change in home prices in the San Diego-Carlsbad-San Marcos region for 2008 and a -0.1% change for 2009. At the same time, **Forbes.com** looked at the country's 40 largest metro area and combined data on foreclosures from RealtyTrac, job growth from the Bureau of Labor Statistics; transaction volume date from Radar Logic, a New York real estate research firm; and vacancy and current inventory rates form the U.S. Census Bureau and ZipRealty, an aggregator of multiple listing service data and came up with a much more optimistic assessment. It stressed that transaction volume was an increasingly important gauge of a market's health because it shows how easy it is for buyers to get loans and how much confidence there is in the market. In cities like San Diego, one of the five major metro areas where transactions rose, it suggests that over the next half-year prices may start to rise because there's usually a 3-6 month lag between when transactions go up and prices go up.

5/9 The Federal Reserve reported that Americans' credit card debt jumped 6.7% in the first-quarter to $957.2 billion. This spike comes despite the fact that nearly one in three banks is tightening guidelines for credit cards. Credit card delinquency rates hit a 4-year high of 4.53% in February, according to Moody's, a debt rating agency. Oil soared past the $126-a-barrel mark for the first time. The price of a barrel of crude oil has more than doubled in the past year. The mortgage insurer, American International Group (AIG), helped the Dow Jones industrial average to slip by 120 points after posting a $7.8 billion first-quarter loss that rekindled anxiety about the strained state of the global financial system.

5/12 MBIA, the biggest insurer in the troubled bond insurance industry, said that it lost $2.4 billion for its first quarter, as the credit crisis continued to roil the sub-prime-based instruments that the company had insured. IndyMac Bancorp Inc., the second-biggest independent U.S. mortgage company, reported a first-quarter loss. To further muddy the forecasts reported on **5/8**, UCLA's Anderson School of Business (of which I am an alum) predicts that for 2008-09 the economy will avoid a full-blown recession, not only locally but nationwide. (I'm not as sanguine as my alma mater). Their primary criterion for this assessment is that by historical standards unemployment must reach 6% and they don't see that happening. So, short of 6% unemployment, they foresee just a sluggish economy. Ryan Ratcliff, an economist for the Anderson School Forecast does, however, see a fairly long period of falling home prices in California as well as San Diego, depending on the Zip code. San Bernardino and Riverside counties have been the hardest hit with a high number of foreclosures. He expects to see the wave of foreclosures tapering off by early 2009. Within San Diego, the south and southeast areas are the most troubled. Carlsbad and northeast San Diego County have only seen 0 to 5% drop in home values.

5/14 U.S. foreclosure filings reached a record high in April, of some 243,353 households, a rise of nearly 65% above the previous year, according to the U.S. Foreclosure Market Report from RealtyTrac, an online marketplace that tracks foreclosed properties. Particularly hard hit were parts of Nevada, California, Arizona and Florida, whose states maintained the highest foreclosure rates.

The stimulus package is designed to boost consumer spending which accounts for 70% of the country's economy. But, if instead, consumers are forced to spend their rebate money on imported items such as gas, (two-thirds of which is imported, mostly from Canada, Saudi Arabia and Mexico) the stimulus may prove more of a sedative. With oil up, the dollar down, and the rebate checks in the mail one headline rather succinctly stated the consumer's plight, "Gas Bills Ate Your Rebate".

I've not a conspiracy theorist but some of the numbers that overnment is publishing makes one question whether the figures for unemployment and inflation are being understated by the government. According to the government the Consumer Price Index (CPI), the main measure of inflation, rose only 3.9% in the 12 months ending this April, THAT IS, IF YOU DON'T EAT OR DRIVE. The disparity is due to the fact that nondurable goods, such as food and gasoline, comprise only 12% of the CPI. In addition, food and energy prices are eliminated from the so-called core CPI, which many economists tend to focus more closely on because they claim food and gas

prices are volatile. But food and energy costs are major components of household budgets. And those prices have been skyrocketing: gas prices alone were up about 21% over the previous 12 months and food prices were 5.1% higher according to the Labor Department, the biggest increase in 18 years.

5/15-16 In a survey released, today, the National Association of Home Builders said they saw no sign of a housing recovery for the balance of 2008. Last week, Fannie Mae, the largest mortgage lender, did an about-face, easing loan standards after tightening them in December following an increase in defaults and dislocations in the mortgage, housing and securitized loan market. Fannie Mae announced that starting June 1, 2008 it will accept loan-to-value (LTV) ratios of up to 97% when processed through its Desktop Underwriter® (DU) automated underwriting and system and 95% for loans underwritten outside of DU, regardless of local market conditions. The new national down payment requirements of 3 or 5 percent will apply to loans for purchase of single-family, primary residences. Down payment requirements will vary for other occupancy, property and transaction types.

5/19-20 The April index of Leading Economic Indicators (LEI) showed that though the economy remains weak it is avoiding a recession, so far. DataQuick reported that So. California home sales for April jumped 22% in the 6 county region as bargain hunters snapped up homes under $500,000 in areas hardest hit by foreclosures. But in reality, banks took back TWICE the number of homes they sold, which adds to inventory and extends the housing crisis, contrary to what the monthly sales report would suggest. As oil surged to $129.60 the market sank 199 points amid new inflation fears.

5/21 More or less an instant replay of **5/20**: oil up to 133, Dow down to 12,601 or off 227 points. The Fed revised its projections for inflation from 2.1% to 3.1-3.4% and unemployment to increase from 5% to 5.5-5.75%.

5/23 See **5/20** & **5/21**; more of the same, for largely the same reasons. The AP reported that existing-home sales dipped 1% in the month, versus a forecasted decline of 1.6%. But, it also acknowledged that the number of unsold single-family homes rose to the highest level in more than two decades. The weak housing market report for April of existing-home sales depressed the stock market with the Dow dropping 145 points for the day and 571 for the week.

5/27-30 Amid concerns about a weak labor market and poor business conditions, consumer confidence dropped to its lowest level since '92 according to the New York-based Conference Board. The index has now declined for five months in a row. Average mortgage rates rose to an eleven-week high, with rates on a traditional 30-year fixed-rate mortgage averaging 6.08 percent.

Eight more lending casualties were racked up this month. The most prominent names are Chase Home Equity's wholesale and Chase's sub-prime operations. This brings the running total to 262 mortgage lenders that have "imploded" since the beginning of 2007, meaning that they have halted major operations, filed for bankruptcy or become a "fire sale" acquisition of another lender.

THIS ISSUE'S TOPIC: ALT-A LOANS

I've been reporting for months that the media coverage of the "sub-prime" debacle is a misnomer. The media's coverage misleadingly refers to sub-prime when it really means non-prime. The media use these two terms interchangeably, even though they don't mean the same thing. For instance, all sub-prime loans are non-prime, but not all non-prime are sub-prime. Sub-prime loans are generally acknowledged to be those whose borrowers have sub-par credit, i.e., below 620. Non-prime borrowers are well above that threshold. Yet, many of the defaults, foreclosures and short sales are emanating from the non-prime borrowers rather than their more credit-challenged brethren. The non-primes consist of Alt-A loans and stated income loans (a.k.a. "liar loans") and adjustable rate loans. Alt-A's could cause a much larger crisis for the broader economy because Alt-A loans cut across all socio-economic boundaries and were used most heavily in the nation's most affluent cities/regions. The average Alt-A borrower has an average credit score over 700 yet they are still defaulting at a 14% rate and it's 18% now. This is exactly how sub-prime defaults began over a year ago.

The term "**Alt-A**" is a generic term for any loan that isn't prime (A-paper) or sub-prime. Often as not, these refer to any mortgage other than a fixed rate, level payment mortgage. **An Alt-A loan is not really a loan type. Alt-A is a way lenders have of grading a loan and its method of documentation.** These two designations have morphed together somewhat. Alt-A is synonymous with A-minus and has been used to signify borrowers whose credit scores are slightly below those of A borrowers, typically under 680. Yet, there are Alt-A borrowers with credit scores ranging from 620 to as high as 800+. The Alt-A designation is more frequently applied to loans that have less than full documentation or "alternative" documentation.

While Alt-A loans are primarily credit-score driven (from 620 to 800+), borrowers are most often in this category because they don't conform to standard Fannie Mae and Freddie Mac guidelines with respect to property type, debt ratio or loan-to-value ratio. The Alt-A loan avoids these issues but, borrowers do pay a slightly higher interest rate, usually from a quarter- to half-point higher than traditional, fully documented loans. Alt-A loans (or non-primes) command better pricing than the sub-primes (credit scores of less than 620).

CREDIT SCORE

While Alt-A borrowers *may* have some credit dings, there is nothing too grievous. Of course, were they to have a bankruptcy filing or other major derogatory, this would demote them to sub-prime status. Despite an excellent credit score, one reason for being deemed Alt-A might be that the borrower has a limited credit history, either one that is too new or with too few trade lines to qualify for an A paper loan. Remember, credit score means very little without solid history behind it.

LIMITED DOCUMENTATION

One of the most salient characteristics of Alt-A mortgages is their tendency to be limited documentation loans. Most so-called Alt-A loans are not full doc, meaning income is not verified, but rather stated or not disclosed. These loan programs were created to provide credit for self-employed individuals who lacked the typical documentation records such as payroll stubs and W-2 forms. Others may have been recent divorcees, entrepreneurs or business partners who earned income but were still unable to meet a lenders' established documentation requirements. Or, they may have been retirees with substantial assets. As with employment documentation, the same goes for asset documentation. If a borrower prefers not to verify asset reserves or disclose employment history, the loan may also be

referred to as an Alt-A loan. These factors alone can often categorize a loan as Alt-A, even if the associated credit score is excellent and down payment is ample.

Stated income loans with verifiable assets evolved into stated income stated asset loans which begat No Ratio and No Income No Asset loans and ultimately, No Doc loans. (See the May 2006 newsletter Vol. 3 Issue 5 for a detailed discussion of these loans). **Note**: the No Ratio, No Income No Assets (NINAs) and No Doc loans have disappeared from the lending landscape because investors are unwilling to buy them.

HIGH LOAN-TO-VALUE

Another characteristic of Alt-As is their high LTV. Most mortgages that fall into this category are characterized by minimal down payments, if any at all. The most common of these were the piggybacks with an 80% 1st and a 20% 2nd. These are also the ones that borrowers who now owe more than their house is worth are most often walking away from because they had little other than their credit score invested in the property. Today, an Alt-A loan is typically in excess of 80% and more often than not, above 90% LTV. For a second home or an investment property, financing in excess of 80% Loan to Value (especially now) classifies the loan as Alt-A. Such a loan is a riskier proposition for a lender because with “little or no skin in the game” a borrower is more apt to seek a short sale or simply walk away from the property and let it go into foreclosure if he (or she) is delinquent on their payments.

DEBT-TO-INCOME RATIO

Typically, debt-to-income ratios (DTIs or DIRs) are higher with an Alt-A loan, as well. Instead of a DTI ratio of 28% for housing expense and 36% for combined housing and consumer debt, the DIRs may be more in the neighborhood of 35/45, respectively. This allows the borrower to buy more “house” or put less down which could ultimately stretch a borrower too thin, leading to a higher frequency of payment default and one more reason that Alt-A loans are priced slightly higher. Because of their more expansive limits, Alt-As necessarily have higher interest rates. It’s basic economics: the higher the risk, the higher the reward or yield (required by the lender). Naturally, the combination of a high LTV, a high DTI, a low FICO and limited documentation is apt to require a commensurately higher interest rate.

One or all of the above elements may cause the loan or the borrower to be designated Alt-A.

“I MAKE $40K A MONTH AND MY FAMILY AND I WILL BE OCCUPYING OUR NEWLY PURCHASED 1 BEDROOM CONDO. WHY DO YOU ASK?”

Reports of suspected mortgage fraud rose 42% in 2007 as banks became more leery of lies on loan applications. According to the U.S. Treasury, the most common type of mortgage fraud was misrepresentation of income or assets, followed by forged documents, misrepresentation of a borrower’s intent to occupy a property as a primary residence and inflated appraisals. Florida led the nation for the second-straight year, followed by Nevada, Michigan, California, Utah, and Georgia.

The findings of the Mortgage Research Institute which investigates lending fraud reported that the number of borrowers who exaggerated income on *stated income* loans, a.k.a. “liar loans” could be as high as nine of out of ten. Its study of *stated income* loans revealed that 90 percent of borrowers

exaggerated income by 5 percent or more; nearly 60 percent exaggerated income by 50 percent or more.
Not surprisingly, delinquencies are mounting and in many areas of California and the delinquencies are in the double digits.
Nation-wide Alt-A losses are projected to total about $150 billion.

In another report issued last month by Fitch's, a credit rating agency, Alt-A mortgages, the subject of this issue's topic, showed significantly higher rates of delinquency than sub-prime loans. The Alt-A's with **simultaneous second liens** (SSLs, aka "piggybacks") **were defaulting at very high rates** relative to other loans. The delinquency levels between loans with SSL compared to those without were **71% to 300% higher**.

SPECIALS OF THE MONTH: **The 3/1 conforming @ 4.875% & the 3/1 jumbo at 5.425% are great values. The 5/1 Conforming Jumbo (between $417,000-729,750 depending on the county) is the bargain of the month at 5.625%. See the website for more rates. If you don't see what you want, call me.**

NEW WEBSITE FEATURE

For months now, I've been emailing various realtors "A Weekly Survey of Rates Among 15 National Lenders". It dawned on me the other day: why not provide my readers with the same timely information? The rates and programs are a little more extensive than what's on the front page of the newsletter and updated weekly. Thus, every Friday you can view what the current rates for 11 of the most popular programs. Simply go to www.mortgagestraightTalk.com and click on the menu button labeled "RATES" atop the home page.

NEW LAW– "CAN YOU HEAR ME NOW?"

Effective July 1, 2008, SB 1613 prohibits the use of a cellular phone when driving a motor vehicle **unless** the phone is designed and **configured to allow hands-free listening and talking** and used in that manner.

THE LAMENTED DEMISE OF E-MAIL

Email is a very useful tool for communicating with others because of its immediacy and low-cost. Unfortunately, unsolicited email threatens to derail its effectiveness. What I mean by this is that the unwarranted spamming that is occurring hampers the viability of it as a means of communication. I get 200 unwarranted, unwanted and unanswered emails a day. I am deluged daily with offers to enlarge various body parts of myself and even my pseudonymous cartoon character Morty, to purchase Viagra to help our (presumably now enlarged) body parts function better, longer, stronger, to purchase pirated software, to respond to women in foreign countries who are bored and/or restless that would like to talk to me or send me pictures of themselves, or to

help someone repatriate foreign money for which I will be handsomely rewarded for doing little or nothing. I mention these things here because despite having rather sophisticated spam filters, I have to sift through approximately 6,000 bogus messages a month so as not to miss the handful of legitimate ones. Part of my daily regimen is deleting those that I think are likely spurious. I've become so inundated with this "junk e-mail" that if I don't recognize the name I automatically hit delete. The purpose of my mentioning this is not to vent, but to point out that if you've have referred someone to me, it is vital that they contact me by phone. Otherwise, more than likely, it will end up in my bulk email folder and if I don't recognize their name or the legitimacy of their communiqué, they are liable to become a victim of the delete key.

MORTY'S MAILBAG

Q. What happens to your credit if you default on your mortgage?

A. A person who defaults on their mortgage payments is faced with 3 basic options: 1) do a short sale 2) let the property go to foreclosure 3) send the lender the keys and walk away.

SHORT SALES

Short of being able to make one's mortgage payments a **"short sale"** is the next best alternative. It's sort of a win/win/win all the way around. The seller's credit report shows that the creditor agreed to settle the debt owed them for less than the outstanding balance and the borrower's credit score takes a minor hit but is not trashed, the mortgage lender takes a loss on what is owed but probably 20% less than if it were necessary to foreclose on the property and the new buyer gets a property at a price that may be 10-20% below market.

The down side here is that the process can be protracted, lasting several months. The major hitch, usually, is that the lender (because they're taking less than what is owed on the property) has to approve the short sale, not the seller. Despite having a signed purchase and sales agreement one-third of these transactions fail to complete because, on average it takes lenders 4.5 weeks to provide an answer on a potential short sale, resulting in many potential buyers walking away. Lender's Loss Mitigation Departments are notoriously slow because they are geared for foreclosures, not short sales. Other common reasons for failed transactions are tied to problems with home inspections or damage to the property, seller refusal to sign a deficiency note, and the seller's inability to pay a real estate commission or closing costs.

Still, in an imperfect world, a short sale is the best of all possible bad outcomes. Also, federal legislation enacted last year allows homeowners who negotiate loan modifications with lenders and have portions of their principal debt eliminated to escape income tax liability for the amount forgiven.

FORECLOSURES

A much less appealing situation is one where the property is foreclosed upon. Here, the seller's credit is going to be adversely impacted as though he had gone through a bankruptcy proceeding. Fannie Mae & Freddie Mac count foreclosures as major credit blots for seven years,

On March 31, Fannie Mae sent out new guidelines to lenders intended for foreclosure situations. Fannie will now prohibit foreclosed borrowers from getting another mortgage through the giant investor for five years, unless there are "documented extenuating circumstances." In those cases, the mortgage prohibition is for three years. Even after five years, borrowers with foreclosures in their files will be

required to make at least a 10 percent down payment, and will need minimum FICO credit scores of 680.

The impact of a foreclosure on an individual's score depends heavily on the payment history, length and number of credit trade lines in a consumer's file, but it is always significant. Many borrowers facing foreclosure today have endured serious financial crises—loss of employment, loss of an income-earning spouse, medical issues, or predatory loan terms which led to their inability to make their mortgage payments. When they apply for a loan from either Freddie Mac or Fannie Mae, the standard application form asks whether they have ever experienced a foreclosure or handed over their deed in lieu of foreclosure. If applicants check "yes," the loan is immediately shifted to manual underwriting. Every piece of information is scrutinized by underwriters, who probe for the facts surrounding the loss of the house. For borrowers who faced genuine financial hardships leading to foreclosure, underwriters are likely to be more sympathetic a few years down the road.

WALK-AWAYS

Anyone thinking about joining the growing "walkaway" trend, where homeowners stop making payments and instead are sending lenders their keys, also known as "jingle mail", may wish to reconsider their prospective actions. The walkaways, typically, are people who can afford their mortgage but don't want to pay on a loan that is more than their house is worth—so, they reason they'll live with the stigma or credit hit from a foreclosure just to get out from under their loan. These willful tactics are pushing up foreclosures, particularly in metro areas where home prices have seen double digit declines in the past year. To combat the incipient trend, Fannie Mae and Freddie Mac, the country's two largest sources of mortgage money have issued a warning: if you walk away, don't expect to get a new home loan—certainly not one with favorable terms—for five to seven years.

In California, Florida and Nevada, the sites of once booming housing markets, the walkaway trend has become especially prevalent as many homeowners find themselves upside down on their loans, owing tens of thousands more than the current market value of their houses. If they invested little or nothing in down payments, some owners reason that by continuing to make payments, even if they can afford to, it's just throwing good money after bad. To pander to this growing market, a number of websites have popped up claiming to cut the hassles of bailing out of a mortgage. One company promises that clients "will be able to live in (the) home for up to eight months with no mortgage payments," after paying $895 for a customized plan. The same site says it will provide clients with "legal credit repair" to "improve your FICO scores." Another website claims that "your credit can be repaired and (you will) be able to purchase a house in as few as two years"—after paying a $495 fee. Still another company says walkaways can expect "up to one year living payment free" as the lender goes about filing for foreclosure. That company charges $995 for its how-to-do-it kit.

Fair Isaac Corp. of Minneapolis, the developer of the FICO score used in most mortgage transactions, is less than pleased by any suggestion that a foreclosure or walk-away could be minimized or wiped away in so short a period of time. Its scoring model counts walking-away as a long-standing and severe event, nearly comparable with bankruptcy, with negative consequences for all forms of credit that walk-aways might seek to obtain. That includes credit card applications, auto loans, student

loans—and even insurance and employment.

While borrowers facing foreclosure may have to contend with a host of unsavory consequences like wrecked credit and excessively high interest rates on whatever credit they manage to obtain, walkaway borrowers, no matter what some promoter may have promised online, will receive no sympathy and the IRS may demand income taxes on the balance they never paid.

Recipients of the newsletter are invited to Ask Morty any real estate or financing questions. The answer to the question will be answered either by phone or email and posted in the next issue for the benefit of all. Questions may be forwarded via mail phone or fax. Due to the high incidence of spam, if you email me a question it needs to identified as "real estate question" on the subject line of the email. (See front of issue for phone and fax numbers). Morty's email address is Morty@MortgageStraightTalk.com

MORTGAGE MIRTH

Should you have the misfortune to be pulled over by a Constable On Patrol (COP) it is highly suggested that you **not** say any of the following to the following:

1. I can't find my license. Will you please hold my beer while I look for it? (OK in Texas)
2. Sorry, officer, I didn't realize my radar detector wasn't plugged in.
3. Aren't you the guy from the Village People?
4. Hey, you must've been doin' about 125 mph to keep up with me. Good job!
5. I was trying to keep up with traffic. Yes, I know there are no other cars around. That's how far ahead of me they are.
6. I thought one had to be in relatively good physical condition to be a police officer?
7. You're not gonna check the trunk, are you?
8. I pay your salary!
9. Gee, officer, that's terrific…the last cop only gave me a warning, too!
10. Do you know why you pulled me over? OK, just so one of us does.
11. Are you Andy or Barney?
12. When the officer says, "Gee, your eyes look red, have you been drinking?" You probably shouldn't respond with "Gee, your eyes look glazed, have you been eating doughnuts?"

If you'd care to share one that you've heard, please email it to me at rod@mortgagestraightTalk.com

NEXT ISSUE'S TOPIC:
WHAT MAKES A GOOD MORTGAGE BROKER, GOOD?